ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author:	Ridley-Thomas	Analyst:	Rachel Coco	Bill Number:	AB 480
Related Bills:	See Legislative History	Telephone:	845-4328	Amended Date:	March 15, 2004
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Exclusion/Income Of Qualified Professional Athletic Team Located In Community Redevelopment Plan Area

SUMMARY

Under this bill, the income of a qualified professional athletic team would be excluded from tax.

SUMMARY OF AMENDMENTS

The March 15, 2004, amendments removed language regarding a study conducted by the University of California and replaced it with language that would provide an exclusion from income for qualified professional athletic teams.

This is the department's first analysis of the bill.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to provide an incentive for sports teams to come to an area in need of economic development.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective upon enactment and would be operative for taxable years beginning on or after January 1, 2004.

POSITION

Pending.

ANALYSIS

STATE LAW

Existing state tax law provides special tax incentives for taxpayers conducting business activities within economic development areas, as designated by the Department of Housing and Community Development (DHCD). These incentives include a sales or use tax credit, hiring credit, business expense deduction, and special operating loss treatment. Economic development areas may be enterprise zones, which focus on economically depressed areas, or Local Agency Military Base Recovery Areas (LAMBRAs), which focus on areas severely economically impacted due to closed or downsized military facilities. California has 39 enterprise zones and eight LAMBRAs.

The Community Redevelopment Law was enacted to supply low and moderate-income housing, expand employment opportunities for jobless, underemployed, and low-income persons, and provide an environment for the social, economic, and psychological growth and well being for the community's citizens.

Board Position:			Department Director	Date
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Under this law, local government designates an area it determines to be blighted, as described in Section 33031 of the Health and Safety Code. Local government then may establish a redevelopment project, which is then financed through revenue bond sales. The bonds are repaid through growth in the property tax base due to the redevelopment project. Approximately one-third to one-half of the cities in California has such projects, which are generally monitored by the local property tax assessors.

THIS BILL

Under this bill, for qualified taxable years beginning on or after January 1, 2004, gross income would not include income of qualified professional athletic teams.

"Qualified professional athletic team" would mean a professional athletic team, as defined under current law, that on or after January 1, 2004, satisfies each of the following four conditions:

1. The team is either a new franchise or an existing franchise relocated from another state to a community redevelopment plan area.
2. The team's venue for home competitions is established in, or relocated from, another state to a community redevelopment plan area in this state.
3. The Community Redevelopment Agency (CRA) responsible for the administration of the community redevelopment plan area has certified that the team's home venue is located within the area.
4. The team engages in public contests of baseball, basketball, football, or hockey.

"Qualified taxable year" means the taxable year of the team during which the team engaged in its first public contest for profit at its home venue and each of the four succeeding taxable years.

"Community redevelopment plan area in this state" is described under the Community Redevelopment Law.

The bill specifies that if within 20 years from the date of the first public contest for profit, the team relocates its home venue to a location outside the redevelopment area, then, in the taxable year in which the team relocates, the income of every taxpayer that previously excluded any income shall be increased by the total amount of income excluded during the qualified taxable years.

The bill would require the CRA to promptly notify the Franchise Tax Board if the team relocates its home venue outside the redevelopment area.

IMPLEMENTATION CONSIDERATIONS

As the bill moves through the legislative process, staff will further discuss details of implementing a plan for long-term tracking and retention of tax records for purposes of the recapture provision in this bill.

LEGISLATIVE HISTORY

AB 1003 (Ridley-Thomas, 2003/04) contained language identical to the language in this bill. AB 1003 failed to pass out of the house of origin by the constitutional deadline.

OTHER STATES' INFORMATION

Review of *Illinois, Massachusetts, Michigan*, *Minnesota*, and *New York* laws found no comparable exclusion from tax for athletic teams as proposed by this bill. These states were reviewed because of the similarities between California income tax laws and their tax laws.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

The revenue impact of this bill would be determined by the number of teams that are newly formed in, or relocated from another state to, a community redevelopment plan area, and the amount of gross income that is excluded from taxation. The net effect is that qualified teams would not pay any tax in each of the five qualified taxable years beginning with the year of the first athletic contest for profit in its home venue. Although a specific estimate cannot be derived, potential revenue losses would be very significant over time, perhaps on the order of tens of millions of dollars cumulatively over the initial five-year period of the bill. However, because of the 20-year recapture period for teams subsequently leaving the venue, there would be "potential" out-year revenues generated.

Revenue Discussion

Currently, the NFL, NBA, NHL, and MLB consist of 121 teams, of which 15 are located within California. These large market teams, and an even larger number of small market teams (e.g., minor league baseball), potentially would qualify for the proposed gross income exclusion under this bill. With league expansions, the number of teams will only increase in future years.

For professional athletic teams, revenue streams come from several sources: television and other broadcast rights, attendance, merchandising, stadium naming rights, etc. As professional athletics is big business, these revenue streams are very substantial, if not staggering, in amounts. Available information regarding past team moves suggests that huge sums of tax revenue would go potentially untaxed.

ARGUMENTS/POLICY CONCERNS

This bill would allow a 100% tax exemption for a profit-making entity, which is unprecedented.

This bill does not contain a sunset date. Sunset dates generally are provided to allow periodic review of the tax matter by the Legislature.

LEGISLATIVE STAFF CONTACT

Rachel Coco
Franchise Tax Board
845-4328
rachel.coco@ftb.ca.gov

Brian Putler
Franchise Tax Board
845-6333
brian.putler@ftb.ca.gov